APPROVED MINUTES
of the
FOURTH INTERIM MEETING
of the
CAPITOL BUILDINGS PLANNING COMMISSION

November 13, 2007
Room 309, State Capitol
Santa Fe

The fourth interim meeting of the Capitol Buildings Planning Commission (CBPC) was called to order by Secretary of General Services Arturo Jaramillo and Speaker of the House of Representatives Ben Lujan, co-chairs, on Tuesday, November 13, 2007, at 1:46 p.m. in Room 309 of the State Capitol in Santa Fe.

Present
Rep. Ben Lujan, Speaker of the House, Co-Chair
Arturo Jaramillo, Secretary, General Services Department (GSD), Co-Chair
Sen. Ben D. Altamirano, President Pro Tempore
Robert Apodaca, Designee for Katherine B. Miller, Secretary, Department of Finance and Administration (DFA)
Stuart Ashman, Secretary, Cultural Affairs Department (CAD)
Barbara Gay, Designee for Arthur W. Pepin, Director, Administrative Office of the Courts
Deputy Secretary Gary Giron, Designee for Rhonda Faught, Secretary, Department of Transportation
Sen. Stuart Ingle, Minority Leader
James B. Lewis, State Treasurer
Rep. Thomas C. Taylor, Minority Leader

Absent
Patrick Lyons, Commissioner, State Land Office

Staff
Paula Tackett, Director, Legislative Council Service (LCS)
Bill Taylor, Director, Property Control Division (PCD), GSD
Lemoyne Blackshear, PCD
Roxanne Knight, LCS
Tamar Stieber, LCS
Jacob Winowich, LCS

Guests
The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

<u>Tuesday, November 13</u>

Call to Order; Adoption of September 24, 2007 Minutes

Secretary Jaramillo and Speaker Lujan called the meeting to order at 1:46 p.m. The commission unanimously adopted without changes the minutes from the September 24, 2007 meeting.

State Property and Project Updates

PCD Director Bill Taylor updated the commission on the following ongoing projects:

<u>Capitol Parking Structure</u>

Mr. Taylor said that the PCD will advertise at the end of November a request for proposals (RFP) to design and build a parking structure for the main State Capitol complex. In December, the division will provide to the selected designer/architectural teams follow-up design criteria so the parking structure can move forward.

<u>Property Acquisitions</u>

- West Capitol Campus and Federal Property:
  - The state continues to work closely with U.S. Senator Jeff Bingaman's office, which is helping to get a congressional initiative to sell to the State of New Mexico 11 acres of property located adjacent to the West Capitol Campus and that currently is controlled by the federal General Services Administration (GSA) and the United States Forest Service.

- Coughlin Building:
  - The PCD has entered into a $1.32 million purchase agreement with the owner of the Coughlin Building, the only property remaining on the main capitol campus that the state does not own. The State Board of Finance is expected to approve the purchase at its November 20 meeting, with closing scheduled for the first week of December. Architectural Research Consultants (ARC) recommended that the state buy the property as part of the capitol buildings master plan.

  - Mr. Taylor said three lessees occupy the Coughlin Building — two of them on a month-to-month basis and a third whose lease will expire at the end of February. The seller will give the month-to-month lessees 30 days' notice to vacate after the sale, at which point the state will give 30 days' notice to the remaining tenant. The PCD plans to raze the building after construction begins on the parking structure. Mr. Taylor said the state's Historic Preservation Division determined that the building has no historic significance.

- Old Metro Court Building, Albuquerque:

- Mr. Taylor said the PCD met in October with Bernalillo County Manager John Dantis, who said the county was interested in leasing the old metro court to house an outreach program and rehabilitation center for use by the detention center next door. Mr. Taylor said this would be of great benefit to the state because the building is vacant, which he noted poses security problems. He said the legislature approved trading, leasing or selling the property and that the PCD intends to proceed in negotiations with the county for that lease, allowing for the possibility that the county will purchase the property if it can identify a funding source.

Secretary Jaramillo pointed out that the old metro court has limited parking. Speaker Lujan asked for the appraisal value of the building. Mr. Taylor said the most recent appraisal is a year old. He thought it was for $2.7 million, but said he will provide a more certain figure to the commission. Ms. Tackett said it would cost $7 million to renovate the building.

<u>Albuquerque Scientific Laboratory (Tri-Lab)</u>
The PCD issued an RFP on November 8 with a December 27 deadline for proposals to construct a new "tri-lab" building, which will house the state's Scientific Laboratory Division, Veterinary Diagnostics Services and Office of the Medical Investigator. Mr. Taylor said the PCD will choose a contractor on January 15, 2008 and execute a contract as soon as negotiations are completed. He would like to begin construction in March or April of 2008.

Capital Financing Options

LCS consultant Tom K. Pollard, former executive director of the New Mexico Finance Authority (NMFA), provided an analysis to the commission of owning versus leasing state facilities. He said the state leases most of its office space and proposes that the state build its own offices instead. Changes in the real estate market make it even more critical to explore owning versus leasing, he said.

Mr. Pollard explained that a 2006 amendment to the Constitution of New Mexico allows the state to enter into lease-purchase agreements. As a result, he said, a lot of recurring general fund dollars could move from paying for private lease space into lease-purchasing state-owned buildings, either through the NMFA, which has the authority to acquire buildings for the state, or through private entities.

Mr. Pollard said the median age of state buildings under GSD control, including hospitals, prisons, warehouses and administrative offices, is 41 years. He stressed, however, that the figure may understate the age of a building — greatly so, in some cases — because the GSD dates its buildings from the time they are placed in service, not from when they were built. For example, he explained, the Bataan Building was built in 1900 and renovated in 1965. Thus, it carries a "placed-in-service" date of 1965, which means it is considered 42 years old rather than its real age of 107.

Mr. Pollard said that the GSD estimates the cost of deferred maintenance for state-owned facilities at approximately $500 million in 2005, which comes to $800 million in 2007 dollars when factoring in the increased cost of construction. Since 1990, however, the state has depended more on leasing warehouse and office space and prisons, he said, noting that the state currently leases 35% of its offices in Santa Fe, 70 % in Albuquerque, 90 % in Las Cruces and 80% in the rest of the state.

Mr. Pollard said leasing is not necessarily bad because the private sector can sometimes work faster than the state and build and renovate more cheaply. It also gives the state flexibility to move into and out of buildings as it sees fit. He compared this to owning, whose advantages to the state include:

- gaining equity in buildings it owns;
- not paying extra for private owner profit;
- financing construction or acquisition of buildings at lower interest rates because of the state's tax-exempt status and because the state has a higher credit rating than private developers;
- constructing buildings with greater, and more efficient, space per employee than that generally found in leased space; and
- promoting "economies of scale" and serving the public more efficiently by consolidating state employees from many small leased spaces into larger state-owned campuses with shared auditoriums and conference rooms.

To illustrate, Mr. Pollard provided a "buy-versus-lease" analysis of a health and human services (HHS) complex, as envisioned in the capitol buildings master plan and which the CBPC discussed in 2005. The complex would combine the Human Services Department (HSD), the Department of Health (DOH), the Children, Youth and Families Department (CYFD) and the Aging and Long-Term Services Department (ALTSD). The analysis compares the relative costs of buying versus leasing over the life of the asset, including initial construction costs, financing, ongoing operating costs and periodic major renovations and repairs.

Mr. Pollard presented a scenario he described as the "simplest process — shifting payments from one entity to another". Using the HSD as an example, Mr. Pollard said the department currently leases all of its space — 160,000 square feet in various locations around Santa Fe — at an average of $21.50 per square foot. He said the NMFA could finance construction of a 160,000-square-foot building on state land by selling $40 million in bonds to pay for the building, which he estimated would cost $250 per square foot. The HSD could then enter into a lease-purchase agreement, executed through the NMFA, pledging the revenue stream previously going to lease payments. At the end of the finance period, the state owns the building and will not necessarily have to make any more payments, he explained.

In another scenario, state agencies could move from expensive private lease space into state-owned buildings vacated by agencies relocating to the proposed HHS complex, thus saving the state even more money. For example, he said, the CYFD can move from the Public Employees Retirement Association (PERA) building into the proposed HHS complex, and the Public Regulation Commission (PRC), which occupies private lease space at $22.00 per square foot, could "backfill" the space vacated by the CYFD at a savings of perhaps $2 million a year. He described the PRC move as "a little more complicated" because it does not generate a revenue stream to pledge for bonds. The savings would occur in state general fund dollars to the state, he said, because the state could invest nonrecurring revenues in the new building and "buy savings in terms of not having to make lease payments throughout time".

In this scenario, Mr. Pollard said, consolidation and backfill "play together" to create the HHS complex, comprising 250,000 square feet of lease-to-purchase space and 250,000 square feet in backfilled space funded with nonrecurring revenue or state bonds.

Responding to a question from Mr. Apodaca, Mr. Pollard said the HSD would use the $3.4 million it pays annually for leased facilities to cover debt service for bonding a new building. He also said the state would reap substantial savings in even less time than the 30 years illustrated in charts he brought with him, which he said offer conservative scenarios. He said the state could see savings in debt service plus maintenance in about nine years. He noted that while the first set of bonds and the buildings would be paid off in 20 years, his figures allow for an additional 10-year bond issue for serious renovations so that state-owned buildings will last at least 40 to 50 years.

Mr. Pollard concluded that the state is far better off buying than leasing buildings, estimating that owning could save the state more than $91 million over 30 years, not including the value of the building. Adding the value of the building brings the savings to $151 million, according to his charts, because the state has an asset and has also saved money annually. Allowing for inflation, the savings could reach $400 million. Ultimately, he said, "you end up with some pretty massive savings".

Mr. Pollard said his model is most applicable in Santa Fe because the city has such high lease rates — $21.00 to $24.00 per square foot compared to $16.00 per square foot in Albuquerque and Las Cruces, both of which have more vacant buildings in their downtown areas than Santa Fe.

Senator Altamirano questioned Mr. Pollard about the economic impact to lessors who would lose state departments as tenants. Mr. Pollard acknowledged that private lessors "are not going to be thrilled". He also acknowledged that moving agencies will result in some costs to the state. However, he suggested that by vacating private lease space, especially in Santa Fe, the state could help loosen what is now a tight real estate market that can be prohibitive to small and start-up businesses.

Senator Altamirano said he would rather have the money in the general fund than spend it on recurring lease payments. Noting that the state leases 95% of its Las Cruces facilities, he anticipates an outcry from current lessors if the state vacates their buildings. Mr. Pollard acknowledged that his recommendations are not without opposition.

Senator Altamirano said the state could have bought its own buildings in his district, but has been more inclined in the past 10 years to lease rather than to buy. He asked Mr. Pollard about a list of all properties the state leases. Mr. Pollard said the PCD has such a list. Senator Altamirano is concerned that the state pays extravagant lease rates. In the private market, he said, lessors could not get 10% of what the state pays. "It makes me think it's a fraudulent act leasing property like that", he said. He asked Mr. Pollard if lessors are taking advantage of the state.

"I would say the market is the market", Mr. Pollard replied.

Representative Taylor said that high lease payments are not always the fault of the lessor. He described a situation in which the state requested a nine-year lease on a building, which he said made the rental payments "quite a bit". Had the state worked out a 20-year lease, he said, the payments would have been one-third as much. Mr. Pollard told Representative Taylor that the state often pays for flexibility that it never exercises, such as in shorter, more costly leases.

State Treasurer Lewis also expressed concern about the economic impact of moving from leased space to state-owned property, especially in Albuquerque, where the state leases quite a bit of property. He asked if Mr. Pollard's estimates take into account the growth of state government.

Mr. Pollard said he had not considered the economic impact of moving people from Albuquerque to Santa Fe, for example — an impact that he acknowledged would be large. Instead, he said, he was concentrating on the private versus public ownership issues. Regarding growth, he responded that the idea is to sell 20-year construction bonds and renovation bonds. At present, he said, the state treats building ownership as a liability rather than an asset, in part because it does not maintain its buildings sufficiently and then they do become liabilities. He said the state needs to build into the cost of ownership the cost of renovations and maintenance as well as growth and planning. He urged the state to renovate and maintain its buildings extensively so that its assets endure.

Responding to Mr. Apodaca and Deputy Secretary Giron, Mr. Pollard reiterated that the state would save $91 million over 30 years if it converts from leases to the purchase of bonds to construct buildings. Once the bonds are retired, he said, the lease payments disappear, the state pays only maintenance, and large savings begin to accrue, which is what occurred after the state bought the National Education Association (NEA) and PERA buildings.

To a question from Senator Altamirano, Mr. Pollard responded that even with 3% inflation, which he described as reasonable, the state will see substantial savings.

Speaker Lujan commented that consolidating some state agencies could be both a convenience and a savings to the general public, noting that the effect on the business community remains to be seen. Mr. Pollard concurred that consolidating state agencies could save taxpayers money in the general fund and also out-of-pocket as they access state services.

Secretary Jaramillo pointed out that the model whereby the NMFA funds lease-purchase agreements is not the only one consistent with the state constitution. He said private investors can also execute lease-purchase agreements through the RFP process, even if it costs the state a little more money. Mr. Pollard said that private sector lease-purchase agreements run at 6.5% to 7% interest, compared to 4.5% through the NMFA. While that would raise the "bonding costs plus maintenance" bar on the graphic he handed out to the commission, it would still save the state money over long-term leasing because the state winds up with an asset and the economy of grouping human services agencies on one campus.

GSD Capital Outlay Requests

Mr. Bill Taylor provided the following list of capital outlay requests for the GSD:

- $10 million for repairs, renovations and maintenance of more than 600 state buildings;
- $1.5 million for South Capitol Campus planning and infill;
- $9 million to acquire land and design an office building in Las Cruces;
- $5 million for the Santa Teresa port of entry; and
- $4 million to overhaul the engines on state aircraft.

Ms. Blackshear encouraged the commission to support the funding requests.

State Treasurer Lewis asked about the average life of an aircraft. Mr. Bill Taylor deferred, explaining that it is not his area of expertise. Secretary Jaramillo said he is uncomfortable putting the state's planes back in the air without engine replacements. The planes are so old that it does not make economic sense to do a $600,000 overhaul to an airplane that will still be worth only $450,000 after the overhaul and still have safety issues, he said. Secretary Jaramillo said he is worried about putting up aircraft that are 35 years old because "the risks are too high and the rewards are not adequate".

Senator Ingle said that if a plane passes a Federal Aviation Authority inspection, it is safe to fly, regardless of its age. He said the state will never be able to buy new airplanes because they cost too much.

Commission Action and Proposed Legislation

Ms. Tackett told the commission that the state issued an RFP for the capitol buildings master plan and that she expects responses by 2:00 p.m. on November 29. She said staff will go through the proposals and prepare a short list for interviews, which the commission could do in early December.

Ms. Tackett asked the commissioners for direction regarding capital project requests and how to present them to the commission. She suggested reviewing criteria that include health and safety issues; completion dates; certification and licensing; but especially whether and how the requests fit into the master plan. She said there has not been enough time to sift through all the proposed projects from state agencies, especially now that the CBPC is hearing more of them. The commission decided to meet in December, most likely on the third or the tenth of the month.

Speaker Lujan asked about upgrading the PERA Building, including heating, cooling and other infrastructure. Ms. Tackett said the state appropriated $25 million, some of which is to be used for renovations and repairs for the building. State Treasurer Lewis suggested looking at the elevator in the PERA Building, which he described as old and quite slow. Ms. Tackett commented that the elevator is the same age as the one in the State Capitol, which she described as slow but steady.

Adjourn

With no public comment and no further business before the commission, Secretary Jaramillo adjourned the meeting at 2:52 p.m.